Message Text

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PAGE 01 MANILA 18766 01 OF 02 021048Z

11
ACTION EA-09

INFO OCT-01 ISO-00 IO-13 TRSE-00 OMB-01 EB-07 COME-00

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USIA-06 PRS-01 SP-02 AID-05 /058 W
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R 020855Z DEC 76
FM AMEMBASSY MANILA
TO SECSTATE WASHDC 3482
INFO AMEMBASSY SINGAPORE
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LIMITED OFFIIIAL USE SECTION 1 OF 2 MANILA 18766

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SUBJ: HOTELS - AFTER THE BALL IS OVER

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1. SUMMARY. TWO MONTHS AFTER THE WORLD BANK/IMF MEETINGS, WORK ON MANILA'S NEW HOTELS HAS SLOWED PERCEPTIBLY, AND FINANCIAL INSTITU-
TIONS ARE TAKING A MORE CRITICAL APPROACH TO THE PROJECTS. THE FUND-RELEASE TAPS HAVE BEEN CLOSED, AT LEAST TEMPORARILY, AND PROJECT BACKERS, MANY OF WHOM BECAME ACCUSTOMED TO A GUSH OF CREDITS BEFORE, ARE NOW SEARCHING ELSEWHERE FOR CAPITAL. OFFICIAL FIGURES INDICATE THAT $272 MILLION HAS BEEN APPROVED FOR THE PROJECTS AND $214 MILLION RELEASED, BUT SOME SOURCES BELIEVE ACTUAL FIGURES ARE HIGHER.

2. MEANWHILE, TOURIST ARRIVALS ARE INCREASING THIS YEAR AT A RATE OF ABOUT 20 PERCENT, WHICH EVEN IF SUSTAINED WOULD NOT PUT THE NEW HOTELS ON A PAYING BASIS UNTIL 1979. CURRENT RATES OF OCCUPANCY ARE LESS THAN 25 PERCENT, AND COMPETITION RESULTS IN SOME NOTABLE BARGAINS IN ROOM RATES. END SUMMARY.
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PAGE 02 MANILA 18766 01 OF 02 021048Z

3. SINCE CONCLUSION OF THE WORLD BANK/IMF MEETINGS IN OCTOBER, WORK ON THE UNFINISHED HOTEL PROJECTS HAS SLOWED TO A MORE LEISURELY PACE, AND HOTEL MANAGEMENTS HAVE DUG IN FOR AN EXTENDED PERIOD OF FINANCIAL TIGHTNESS AND COMPETITION FOR THE ELUSIVE GUEST. BOTH DEVELOPMENTS WERE ENTIRELY PREDICTABLE, AND CALL FOR A LOOK AT THE SITUATION OF THE HOTELS AND THEIR FINANCIAL BACKERS.

4. WHILE A SLOW-DOWN IN WORK SCHEDULES WAS NATURAL ONCE THE OCTOBER DEADLINE HAD COME AND GONE, IT HAS COME AS SOMETHING OF A SHOCK TO OWNERS THAT THE FLOW OF FUNDS FROM FINANCING AGENCIES, PRIMARILY DEVELOPMENT BANK OF THE PHILIPPINES (DBP) AND GOVERNMENT SERVICE INSURANCE SYSTEM (GSIS), HAS ALSO SLOWED TO A TRICKLE. FUND RELEASES HAVE VIRTUALLY CEASED SINCE SEPTEMBER, AND THE DBP OFFICER IN CHARGE OF THE HOTEL PROGRAM INDICATED THERE ARE TWO REASONS FOR THIS: 1) THE NEW DBP CHAIRMAN, PLACIDO MAPA (WHO TOOK OFFICE AT THE TIME OF THE CONFERENCE), IS DECIDEDLY LESS KEEN THAN HIS PREDECESSOR ON DBP
INVOLVMENT IN HOTELS, AND
2) MORE IMPORTANTLY, THE DBP IS NOW TAKING A MUCH CLOSER LOOK AT PERFORMANCE CIRTERIA BEFORE MAKING FURTHER RELEASES. IN THE PRE-OCTOBER CRUNCH, THE DBP WAS FORCED TO TURN A BLIND EYE TOWARD DEFICIENCIES, BUT IT NOW HAS THE TIME TO ADMINISTER THE LOANS AS THEY SHOULD BE. ONE APPARENTLY COMMON PRACTICE WAS FOR PROJECT BACKERS TO USE LOAN PROCEEDS TO MAKE UP PART OF THEIR EQUITY CONTRIBUTION, CONFIDENT THAT INFLATED LOAN DISBURSEMENTS WOULD COVER PROJECT COSTS. NOW, UNDER THE NEW DISPENSA-TION, MANY ARE TURNING TO FOREIGN PARTICIPANTS FOR ADDITIONAL CAPITAL INFUSIONS.

5. SOME HOTELS HAVE APPLIED FOR ADDITIONAL LOAN APPROVALS, BUT THESE WILL ALMOST CERTAINLY NOT BE APPROVED. IN ADDITION TO THE NEW HARD-NOSED ATTITUDE, THE CENTRAL BANK MONEY TREE SEEMS TO HAVE GROWN DORMANT FOR THE SEASON. THE CB IS SUPPORTING UP TO 80 PERCENT OF LOANS TO THE PROJECTS. THE DBP/CB ARRANGEMENT IS AS FOLLOWS: DBP BORROWS FROM THE CENTRAL BANK IN ORDER TO BUY SECURITIES; THESE SECURITIESD
RE IN TURN PURCHASED BY CB TO
GENERATE CASH FOR THE DBP, UNDER A REPURCHASE AGREEMENT BY THE DBP. THE ORIGINAL CB CREDIT COSTS THE DBP NINE AND A HALF PERCENT, AND THE MONEY IS LOANED TO THE PROJECTS AT 12 PERCENT AND 12 YEARS,
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WITH A 2-YEAR GRACE PERIOD ON PRINCIPAL REPAYMENTS. (DBP HAS THE OPTION OF RAISING THE INTEREST RATE, AND IS CONSIDERING USING THIS AS A BLUDGEON TO ENCOURAGE REPAYMENT ON TIME.) THE GSIS/CB ARRANGEMENT IS SIMILAR, WITH THE EXCEPTION THAT GSIS PURCHASES THE SECURITIES NOT WITH CB CREDITS, BUT FROM INTERNALLY-GENERATED SAVINGS. ACCORDING TO SOURCES IN THE DBP AND GSIS, BOTH INSTITUTIONS HAVE NO MORE SECURITIES TO SELL TO THE CB AND THUS GENERATE MORE CASH.VQTHE CB COULD, OF COURSE, GENERATE ADDITIONAL CREDITS FOR

THE PURPOSE, BUT THE CB IS BELIEVED TO BE UNDER PRESSURE FROM THE IMF TO HOLD DOWN FURTHER EXPANSION OF THE MONEY SUPPLY IN THIS MANNER.

6. THE HOTELS, MEANWHILE, HAVE LITTLE CHOICE BUT TO PUSH THEIR PROJECTS TO COMPLETION. FOR DESIGN REASONS, PARTIAL COMPLETION IS NOT PRACTICAL. PADDING OF CONSTRUCTION COSTS, SKIMMING, AND SIMPLE WASTE AND BAD MANAGEMENT HAVE TAKEN THEIR TOLL. CONSULTANTS IN THE INDUSTRY HAVE TOLD US THAT THE COST OF A ROOM AT THE MANILA HOTEL IS ABOUT $54,000, WHILE THAT AT THE PHILIPPINE PLAZA (WHICH ONCE HAD 10,000 WORKERS SWARMING OVER IT) IS ABOUT TWICE THAT MUCH. ON THE SUBJECT OF LABOR, THE EMBASSY IS AWARE OF NO PROBLEMS CAUSED BY THE REVERSION TO A MORE NORMAL WORK SCHEDULE AND CONSEQUENT LAY-OFFS.

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PAGE 01   MANILA 18766 02 OF 02 021054Z

12
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LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 18766

7. FOLLOWING ARE FIGURES ON EXPOSURE TO THE LARGE MANILA HOTEL PROJECTS BY THE THREE MAIN INSTITUTIONS, DBP, GSIS, AND PHILIPPINE NATIONAL BANK (PNB). THE FIGURES ARE LARGELY FROM OFFICIAL SOURCES, WITH EMBASSY ESTIMATES INDICATED IN PARENTHESES (IN MILLION US$):

LOANS	DBP	GSIS	PNB	TOTAL
APPROVED	140.9	104.8	(26.9)	272.6
DISBURSED AMOUNT	116.6	71.1	(26.9)	214.5

REIMBURSED
BY CB 88.2 (56.8) (20.2) 165.1

8. SOME SOURCES, PARTICULARLY CONSULTANTS CLOSE TO THE PROJECTS, CONSIDER THE ABOVE FIGURES UNDERSTATED.A FORTHCOMING ARTICLE IN THE FAR EASTERN ECONOMIC REVIEW, FOR EXAMPLE, WILL INDICATE A TOTAL EXPOSURE OF ABOUT $500 MILLION. LATITUDE FOR MASKING THE FIGURES, HOWEVER, APPEARS TO US LIMITED, ACS THE DBP FIGURES ABOVE WERE THOSE RECENTLY PROVIDED TO A WORLD BANK MISSION.

9. WHAT ABOUT EARNING PROSPECTS FOR THE HOTELS? IN SPIT OF BRAVE TALK ABOUT SINGAPORE'S RECOVERY FROM AN OVERBUILT SITUATION, THE PICTURE IS NOT BRIGHT. TOURIST ARRIVALS THROUGH OCTOBER WERE 485,587, WHICH IS 21 PERCENT AHEAD OF LAST YEAR.

IF 1975'S YEARSEND
SURGE IS REPEATED, ARRIVALS FOR 1976 COULD
REACH 606,000. AT THIS RATE OF EXPANSION, THE ESTIMATED ONE MILLION TOURISTS REQUIRED TO PUT THE HOTELS ON A PAYING BASIS (70-75 PERCENT OCCUPANCY) WOULD BE REACHED IN 1979. OBVIOUSLY, INCREASES IN FUEL COSTS WOULD HAVE AN ADVERSE EFFECT ON THE TOURISM PICTURE.

10. PUBLISHED OCCUPANCY FIGURES FOR NOVEMBER INDICATE THAT THE ESTABLISHED HOTELS ARE DOING WELL (FROM 45 PERCENT TO 91 PERCENT OCCUPANCY RATES), BUT THE NEWER ONES ARE NOT. INCOMPLETE (AND SLIGHTLY SUSPECT) DATA SHOW AN AVERAGE COMPLETION FOR THE NEW HOTELS OF 56 PERCENT, AND AN AVERAGE OCCUPANCY RATE (IN THE PORTIONS NOW OPEN) OF JUST OVER 50 PERCENT. IF ALL HOTELS HAD BEEN COMPLETED, THE OCCUPANCY RATE FOR THE NEW HOTELS WOULD HAVE BEEN BETWEEN 20 AND 25 PERCENT. SOME STAFF LAYOUT HAVE BEEN REPORTED.

11. COMPETITION IS FIERCE, AND RATE-CUTTING IS THE ORDER OF THE DAY, MAKING THE PREVIOUSLY-DECREED GOP RATE SCHEDULE A DEAD LETTER. THE PENINSULA, WHICH GIVES THE IMPRESSION OF HAVING MORE STAFF THAN GUESTS, RECENTLY AGREED TO A MONTH-TO-MONTH LEASE FOR ONE OF ITS SUITES FOR $20 A DAY, THE SAME AS ITS CUT-RATE FOR A SINGLE.

12. IT LOOKS LIKE A GRIM PERIOD AHEAD FOR THE HOTELS, WHICH SUDDENLY FIND THEMSELVES OUT IN THE COLD. AND THERE MAY BE SOME HARD CHOICES AHEAD FOR THE FINANCING INSTITUTIONS, ONCE PAYMENTS ON PRINCIPAL START FALLING DUE. SOURCES IN THE CB, DBP, AND GSIS ALL INDICATE THAT THEY HAVE BEEN GIVING THIS SOME THOUGHT, AND THAT FORECLOSURE WILL BE A LAST RESORT. IF REPAYMENT IS A PROBLEM TWO YEARS HENCE, RESCHEDULING APPEARS THE MOST LIKELY SOLUTION.
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